NAVY FEDERAL Credit Union®

Office of the President

November 20, 2007

The Honorable Henry M. Paulson, Jr.
Secretary
United States Department of the Treasury
1500 Pennsylvania Ave., NW
Washington, DC 20220

Re: Docket ID: TREAS-DO-2007-0018
Review of Regulatory Structure

Dear Secretary Paulson:

Navy Federal Credit Union provides the following comments on the Department of the Treasury's review of the regulatory structure associated with financial institutions. Navy Federal is the nation's largest natural person credit union with over $32 billion in assets and nearly 3 million members.

Navy Federal strongly supports the current regulatory structure, particularly as related to federal credit unions and their supervision by the National Credit Union Administration.

When reviewing the regulatory structure of financial institutions, in addition to concerns surrounding banks and thrifts, Navy Federal believes it is also important to consider the regulation and unique nature of credit unions. In 1934, President Roosevelt signed into law the Federal Credit Union Act. This established a federal credit union system that would provide a dependable not-for-profit source of financial products and services to mainstream Americans, a market that had been abandoned by many for-profit financial institutions during and immediately after the Great Depression. Credit unions were often formed when employees of a company or groups of people living in the same geographic area came together to provide financial services for each other. Hence, credit unions are cooperatives composed of and run by members that have common bonds of employment, association, or community. Each credit union member receives one vote under the philosophy that all members are treated fairly. Credit union officials serve on the board and committees as volunteers and generally perform their duties without compensation.

Credit union services are designed to return financial value to, and improve the economic and social well being of, all members, including low- and moderate-income members. Because credit unions are not-for-profit, they invest in their members by offering higher savings rates, lower lending rates, and lower fees than those offered by other types of financial institutions. The credit union focus of serving members rather than earning a profit has been exemplified year after year by the American Banker/Gallup annual consumer surveys of the financial services industry. These surveys have consistently shown credit unions ahead of other financial institutions in serving consumers.

In 1970, Congress formed the National Credit Union Administration (NCUA) to charter and supervise federal credit unions. Also that year, without tax dollars, credit unions self-capitalized a self-replenishing National Credit Union Share Insurance Fund (NCUSIF), to insure member deposits. NCUA deposit insurance is on a par with that provided by the Federal Deposit Insurance Corporation (FDIC) for banks, insuring each deposit account to at least $100,000. Throughout the 1970s, legislation expanded member credit union services to include share certificates and mortgages. In 1979, Congress created a Central Liquidity Facility (CLF) as a lender of last resort to improve the general financial stability and provide credit unions with their own source of liquidity in a manner similar to the Federal Reserve Discount Window.

In the 1980s, the stress of deregulation, high interest rates, and unemployment required credit unions to recapitalize the NCUSIF by depositing 1 percent of their deposit shares into the fund. Throughout the 1990s and into the 21st century, under the established regulatory framework, credit unions thrived and remained safe and sound. Failures have remained low and the NCUSIF has remained at a healthy level. By the end of 2006, almost 8,500 credit unions, with over $700 billion in assets, served over 85 million members.

Under its three-pronged approach to safety and soundness, NCUA is the single federal safety and soundness regulator, NCUSIF is the single insurer of all federal, and most state, credit union deposits, and the CLF is the lender of last resort. NCUA is very familiar with the unique nature of credit unions, their not-for-profit business model, and their risk profile. No other regulatory structure would suit credit unions as well as the current one.

As globalization evolves, examiners need to be more aware of international economic and political developments and the effect such developments, concurrent with product innovations, may have on the safety and soundness of the global economy. These factors increase the pressure on Congress and the regulators to keep pace with laws and regulations, while avoiding unnecessary regulatory burden on financial institutions. One area in which innovation has had a distinct impact on our national economy has been the development of mortgage products. While these innovations successfully lowered the barriers to home ownership, their wholesale implementation in a historically cyclical industry have contributed to economic risks. Nonetheless, Navy Federal believes that the current regulatory structure and manner in which regulatory actions are coordinated under the Federal Financial Institutions Examination Council aptly complement these developments. Further, with respect to the supervision and regulation of credit unions, Navy Federal believes that NCUA is adequately knowledgeable and essentially need not focus on economic globalization to the same extent as other regulators responsible for supervising and regulating the largest complex banking organizations.

In Navy Federal's opinion, the "functional" regulatory framework does not pose significant difficulties for considering overall risk to the financial system. Banks total approximately 8,600 with over $12 trillion in assets; federal and state credit unions total approximately 8,500 with over $700 billion in assets. Bank systemic risk is centered in consolidated financial holding companies, which are overseen by the Federal Reserve, as complemented by the OCC in the case of lead national banks. A macro view of bank system risk, which poses the preponderance of risk to the financial system, is available to the one supervisor that is also the bank lender of last resort. And, the singular supervision of federal credit unions, by NCUA, poses no significant challenge in the consideration of risk to our overall financial system.

Navy Federal believes that the current structure of the regulatory framework is superior to that of other countries, as it inherently possesses checks and balances. The robust nature of the U.S. regulatory framework, e.g., FDIC's bank depository insurance program, the Federal Reserve's role as lender of last resort and overseer of financial systemic risk, and the role of all financial regulators in supervision and regulation, including NCUA's comprehensive role for credit unions, derives its strength from this intricate framework. This framework also encompasses the dual federal and state chartering system, which has a history dating back to our nation's foundation. In addition to the various federal regulators, banks and credit unions are subject to the laws and regulations of the 50 states. State laws and regulations that originated for various reasons should not be eradicated merely in the quest for regulatory efficiency. The U.S. has the strongest and most innovative banking system in the world, largely because banks have the choice of being federally or state chartered. This choice creates a healthy dynamic tension among regulators, resulting in a wider range of products and services available to consumers, lower regulatory costs, and more effective and responsive supervision. Also, a dual chartering system allows institutions to strategize and select the type of charter that best suits their needs.

> "Diversity increases the chances that innovative approaches to policy problems will emerge…A sole regulator, not subject to challenge from other agencies, might tend to become entrenched, conservative, and shortsighted." *U.S. Department of the Treasury, Modernizing the Financial System, February 1991, page XIX-6.*

Finally, foreign regulatory regimes have been identified for comparison in this request for comment. One regime particularly worth noting is that of the United Kingdom. In 1999, the UK evolved to having one financial supervisor outside of its central Bank of England, i.e., the Financial Services Authority. In 2001, the UK established a deposit insurance fund, the Financial Services Compensation Scheme (FSCS), which replaced earlier programs and eventually included credit unions. Where FDIC and NCUA insure deposits to at least $100,000, the FSCS insures deposits to approximately $76,000US: 100 percent of the first £2,000 (or $4,100US) and up to 90 percent of the next £35,000 (or $72,000US). The Bank of England remains the lender of last resort. This past September, Britain's fifth largest mortgage lender, Northern Rock Bank, experienced a run on deposits, as thousands of panicking savers lined up to withdraw millions of pounds. The value of stock shares of Northern Rock and other British financial institutions subsequently declined. International press observed that while this occurred in Great Britain, the chance of a similar run on a U.S. bank is almost nil, given the FDIC's superior insurance program and historic rapid response to bank failures, and the Federal Reserve's overt support to our financial system.

For all its apparent inefficiencies, the intricate U.S. regulatory structure, which is essentially charged with maintaining global financial tranquility, possesses less obvious but necessary strengths. Navy Federal believes that this structure, which has served the country for almost 100 years should be altered only after very careful consideration and with the greatest care. Continuance of the significant roles played by the FDIC, Federal Reserve, and NCUA requires their continued ongoing examinations of, and access to, financial institutions to be able to respond swiftly and efficiently in a time of crisis.

Navy Federal believes that the checks and balances and tailored approach to the three basic requirements of a strong regulatory structure, i.e., supervision and regulation, deposit insurance, and lender of last resort, serve the world and the United States, in general, and the credit union movement, in particular, very well. This structure goes a long way toward maintaining the stability of the financial system and maximizing its utility for consumers.

Navy Federal appreciates the opportunity to comment on the review of the regulatory structure associated with financial institutions. If you have any questions on our comments, please contact Anita Marchion, Assistant Vice President, Compliance, at 703-206-4758.

Sincerely,

Cutler Dawson

Cutler Dawson
President/CEO

CD/am